

POST



Impressions

SPRING NEWSLETTER 2006 Issue No.4

NEW PRICE CONTROLS FROM ROYAL MAIL



As we told you in our last newsletter (winter 2005) Royal Mail are set to make increases on their postal tariffs. The current price controls are valid until the end of March 2006. Postcomm are consulting on what controls are to replace the existing ones and all responses were due to be in by 6 March 2006.

It looks highly likely that both first and second-class stamps will rise by 2p and that associated business tariffs will also see rises. What really concerns us is the delays in the consultation process, in particular where 'indicative' prices from Royal Mail were only announced on 18 January 2006 and Royal Mail have continued to submit further information after the close date to the consultation. The effect of this is that business customers are left unable to plan ahead. For instance, bulk mailers will have already committed to campaigns being distributed in April without knowing what their postage costs will be. This seems wrong and ONEPOST will be lobbying to ensure such errors are not repeated.

This consultation is particularly important as Postcomm are looking to set controls right through to 2010. Whatever is finally agreed will hopefully protect the one price goes anywhere universal service. In addition we will be looking for proposals that offer a fair deal to all: customers, Royal Mail and the new carriers.

'VALUE ADDED'... OR A BARRIER TO COMPETITION?

Without doubt, Value Added Tax (VAT) is a barrier to fair competition in the UK postal marketplace – and, as such, the ONEPOST view is that it needs sorting out as soon as possible.

Historically, Royal Mail enjoys many special privileges that were granted at a time when they enjoyed their monopoly status as a sole provider of postal services – and one of these is that it does not charge VAT on postal services, yet other postal operators are required to charge VAT at 17.5%.

While this has little effect on businesses that can reclaim VAT, many major mailers – such financial services organisations and charities – are not able to reclaim VAT and this puts competitors to Royal Mail at a disadvantage. This is a concern as the business sectors affected account for almost half of the mail market.

ONEPOST believes this anomaly should be rectified as soon as possible, and we will be doing all we can over the coming months by lobbying key people to find an effective solution to resolve an issue that is effectively distorting healthy competition in the UK postal market.

We remain optimistic that a sensible solution will arise and it is encouraging to note that Postcomm share our views on this matter, but the policy on VAT is set by the government. However, there is a draft EU Directive document looking at this whole area, and current thoughts suggest that a reduced level VAT rate at 5% could be applied to all postal services. This would create the level playing field required and would have little effect on Royal Mail prices.

Our future newsletters will keep you up to date with progress made.

In the meantime, if your business is affected by this situation, we may still be able to help you lower your postal costs – so please do contact us.

Creating **Fairness** and Improving **Service**

Commercial freedom in the UK postal market has been long awaited. The Regulator (Postcomm) will be monitoring market activity and has powers to ensure there is fairness amongst all the postal services providers and that there is no compromise on the quality of services provided.

As you would expect, ONEPOST feels it is absolutely imperative that competition is handled fairly and openly and that the market retains a healthy incumbent in

Royal Mail. Two recent announcements from Postcomm have alerted us to the fact that some of Royal Mail's behaviour is not all it could be.

Firstly, Postcomm has proposed financial penalties of £11.7m on Royal Mail for what they see as serious breaches of its licence obligation in 2004/05 to protect the mail and deliver it on time.

At the heart of this issue is the fact that during 2004/05 over 14 million letters, packets and parcels in the care of Royal

Mail were lost, stolen, damaged or interfered with. Whilst improvements have been made, we take the view this licence breach is unacceptable and support any initiative or forced change of procedures that improve the area

known as 'mail integrity'. Against this background it is important to note that all licensed postal operators, including Royal Mail, must now comply with Postcomm's mail integrity code, which came into effect when the postal market opened to full competition on 1 January 2006.

Postcomm has also announced that it is proposing a fine of £2.16m and issued an enforcement order on Royal Mail as it concludes that the company has not put in place adequate measures within its wholesale and retail divisions to prevent it obtaining an unfair advantage over its competitors. The concern is that the retail arm could use information obtained by the wholesale section to unfairly attract mailing business.

Again, the ONEPOST stance is very clear. We simply wish for a level playing field where all postal operators are given the chance to effectively trade in a market where innovation and quality of service is visibly demonstrated.



POSTAL ADDRESS FILE UNDER REVIEW

The Postal Address File (PAF) is a comprehensive database of postal address within the UK that has been developed and managed by Royal Mail since its creation over 40 years ago.

Originally developed by Royal Mail to improve the efficiency of its postal service, the PAF has evolved to where it is strategically used by a variety of companies. For example, the insurance

industry uses PAF to group and profile customers and the NHS uses it to link patients with NHS codes. And, with the arrival of competition, it is also a resource used in many ways by the new postal carriers.

Postcomm recognises the value of this business asset and has recently issued a Consultation Document that looks at areas such as ownership, regulatory controls and fairness if its use.

We will certainly be keeping a close eye on the outcomes regarding PAF. The details are yet to be agreed and the close for responses (to Postcomm) is the 12th May 2006. Given there are around 30,000 PAF licence holders, it is clearly essential that a full review is conducted and that a way forward can be achieved. The likely

outcomes are difficult to predict, but if there is a change of ownership it is essential that PAF is efficiently administered and reflects the needs of the whole postal industry. In addition, we will be looking for an outcome that managed on a fair and non – discriminatory basis.



Unravelling the **complexities** of a **competitive** market

A necessary by-product of choice is a level of complexity.

Andrew Starkey, Postcomm's Director of Market Infrastructure, looks at the choices created by the competitive mail market.

What's happened in the postal market since 1 January? A fair question. As far as the man-in-the street is concerned, the only signal that something has changed is the occasional envelope on the doormat bearing a TNT, UK Mail, DHL or other strange insignia instead of Royal Mail.

It's different for business mailers. After 350 years of a monopoly providing a one-size-fits-all service, the bulk mailers are beginning to be spoilt for choice.

Now, if they want their mail collected later in the day - that can be arranged. Perhaps they would like to be able to track and trace their mail to the point where it

enters the Royal Mail network - that can be arranged too. Or maybe they would like their mail delivered on a specific day - someone will offer that service.

The options customers choose will vary with the type of mail they send. Customers sending out financial information will need different services to those sending marketing material, general communications or delivering customers orders.

That is why it is good to see the emergence of services that help mail customers unravel the complexities so they can gain maximum benefit from the



new market. The emergence of companies offering these services, such as ONEPOST, is a vital component of a successful market.

REAL CHOICE, REAL ALTERNATIVES

Well, 1st January 2006 has passed and we now have a fully liberated UK postal market.

As to be expected, the scale of change has been steady rather than dramatic. ONEPOST, along with many other industry commentators, welcomes this new trading environment and we expect to see increased activity from the new carrier entrants as the year unfolds. But let us not forget that for genuinely healthy competition the market will depend on an efficient Royal Mail.

The new entrants effectively have two choices on how they wish to operate in the postal market. Back in our very first newsletter (Summer 2005) we talked about the choices available. As our reader base is significantly growing its probably worth repeating the choice now available in a fully liberated market.

End to End:

As the name suggests, this service includes the collection, distribution and delivery of a customer's mail. It was never likely to be a favoured route to market, but it is interesting to note that in 2004/2005 more than 106 million items were distributed via an end to end service.

Access Agreements:

There are now around a dozen 'access' agreements between postal operators and mailers with Royal Mail. This service means that the licence holder will collect and sort mail ready to be fed into Royal Mail's network for delivery over the so-called 'final mile'. There has been reasonable activity via access agreements with over 381 million items distributed in the first half of the financial year 2005/2006. All the indications are that more mailers will take advantage of the various

access agreements with volume likely to go well beyond a billion letters per year.

The ONEPOST factor:

Clearly, there is scope to develop the opportunities now available but, with the extra possibilities, can come extra complexities.

That's where ONEPOST can help you. It's our role to track market development and use our extensive experience and advanced software to manage the details and present you with straightforward operational procedures and simple administration - and, of course, lower postal costs.

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Know your *Size, Weight and Thickness* from *21st August 2006!*

Including that free pen in your mailer might be a good marketing idea, but what will happen to your costs from 21 August 2006?

Royal Mail plans to introduce Pricing In Proportion (PIP) on 21 August 2006. This means that your mail charges will change to take account of size, weight and thickness. Despite an active communication programme there is still widespread confusion and lack of awareness about this initiative.

ONEPOST are instrumental in the education of UK mailers and have

sponsored industry seminars on PIP (hosted by the DMA). Final pricing implications are not yet available as this is linked to the price controls, which will be effective from April this year. (See leading article.) We hope to provide a full update in our next newsletter.

There are a number of steps that businesses should be taking in advance of this initiative. Size and weight of items are easier to assess, but have you considered the impact of the thickness criteria – that free pen? Don't forget that a whole range

of services will be affected including:

1st & 2nd class mail

Mailsort/Walksort

Presstream

Response Services such as reply envelopes & Freepost

In the meantime if you have concerns about PIP we will be pleased to speak to you, there may be some practical steps you can take right now.

DID YOU KNOW?

Businesses send about 80% of all mail in the UK licensed postal market. This important sector are optimistic about mail volumes and expect them to increase over the next 5 years.

Postcomm believes that over 40% of Royal Mail's business customer base is VAT exempt. We give consideration to the issue of VAT in this newsletter, as it is ONEPOST's belief that a level playing field must be created to ensure fair competition is encouraged.

The universal service means that anyone in the UK can post letters to any other part of the country at the same affordable rates. There is also a guarantee of one delivery of mail for every UK business and household for six days of the week. Royal Mail holds the only licence that requires it to provide a Universal Postal Service.

Although ONEPOST are a relatively new organisation, we have a wealth of mailing experience to call upon. Graham Cooper (Managing Director) and Tim Norman (Commercial Director) have over 50 years between them and – backed up by some very advanced, specially developed software – they can offer great advice about how to best maximise your postal budget.

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The future for postage prices is altogether brighter